

## Message Text

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SUBJECT: PRESENT STATUS OF US STEEL CONVERSATIONS WITH GOV

1. COHLMAYER, PRESIDENT OF ORINOCO MINING, AND US STEEL VICE PRESIDENT RYAN CALLED ON ME THIS MORNING TO REVEAL PRESENT STATUS OF THEIR CONVERSATIONS WITH VENEZUELAN GOVERNMENT OVER NATIONALIZATION OF THE IRON INDUSTRY. THEY SAID IN FACT DISCUSSIONS HAD BEEN IN ABEYANCE FOR THE PAST TWO MONTHS BECAUSE OF THE ABSENCE IN NEW YORK AT UN OF MINISTER OF STATE PEREZ GUERRERO. HOWEVER, ON AN INTERMITTENT BASIS THEY HAD CONTINUED INFORMAL TALKS WITH PRESIDENT OF CVG GAMBOA AND IN FACT HAVE BEEN GIVEN SOME ENCOURAGEMENT WHEN, AT THE RECENT MEETING IN MUNICH OF THE INTERNATIONAL IRON AND STEEL ASSOCIATION, IN RESPONSE TO A DIRECT QUESTION GAMBOA REPLIED THAT BOTH US STEEL AND BETHLEHEM WOULD CONTINUE TO OPERATE IN VENEZUELA.

2. STATE OF PLAY IS NOW AS FOLLOWS:

A. FOREIGN IRON ORE COMPANIES WILL BE NATIONALIZED BY DECEMBER 9, THE ANNIVERSARY OF THE BATTLE OF AYACUCHO. THERE WILL, HOWEVER, BE A ONE-YEAR PERIOD OF TRANSITION IN QOUT BEFORE GOVERNMENT TAKE-OVER BECOMES COMPLETE.

B. PRESENT SUPPLY CONTACTS WILL BE HONORED DURING 1975 AND POSSIBLY 1976 ALTHOUGH TONNAGES WILL NOT BE CALLED INTO QUESTION BY GOV, PRICES WILL BE SUBJECT TO RENEGOTIATION BUT UNDOUBTEDLY WILL BE HEAVILY INFLUENCED BY WORLD PRICE FOR

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IRON ORE.

C. US STEEL IS RESIGNED TO BEING COMPENSATED (PROBABLY IN STATE BONDS) FOR NET BOOK VALUE OF ITS CONCESSIONARY INVESTMENT.

D. GREATEST HOPE IS PLACED IN POSSIBILITY OF ESTABLISHING A JOINT VENTURE COMPANY TO TAKE OVER OWNERSHIP OF THE HIGHLY EXPENSIVE BRIQUETTING PLANT WHICH HAS COST US STEEL VASTLY MORE THAN ORIGINALLY BUDGETTED AND WHICH THUS FAR HAS PROVED A DISAPPOINTMENT IN THAT IT IS PRESENTLY PRODUCING AT ONLY 25 PER CENT OF ESTIMATED CAPACITY. A FURTHER DISAPPOINTMENT RESULTED FROM DECISION OF PAST CALDERA GOVERNMENT TO INSIST THAT ALL ENRICHED BRIQUETTES BE SOLD TO GOVERNMENT-OWNED SIDOR AT AN ARTIFICIALLY LOW PRICE OF \$19 A TON WHEREAS US STEEL COULD HAVE RECEIVED THREE TIMES THAT AMOUNT IF BRIQUETTES HAD BEEN SOLD ON THE WORLD MARKET. HOWEVER, US STEEL HAS NOT GIVEN UP HOPE THAT IN A JOINT VENTURE FITTING PRESENT GOVERNMENT IDEA OF TECHNOLOGICAL TRANSFER EVENTUALLY THE BRIQUETTING PLANT CAN BE MADE TO PAY AND ULTIMATELY WILL BE BOUGHT OUT BY GOV.

E. US STEEL HAS ENTERED A SERIOUS BID FOR SUPPLY OF NEW FURNACES FOR THE NEW 15 MILLION TON CAPACITY STEEL MILL WHICH GOV INTENDS TO BUILD AT CIUDAD GUAYANA. IN FACT, THROUGH A CONSTRUCTIVE SUGGESTION RE CHANGE OF SPECIFICATIONS, US STEEL THINKS IT MAY HAVE AN INSIDE TRACK IN BEING THE SUCCESSFUL BIDDER.

3. COHLMeyer AND RYAN SAID THAT ONCE THE HUGE 15 MILLION TON STEEL PLANT IS ON STREAM, EXPECTEDLY IN 1985, IT WILL TAKE THE TOTALITY OF VENEZUELAN IRON ORE AT THE PRESENT RATE OF PRODUCTION OF 25 MILLION TONS A YEAR. AFTER THAT DATE VENEZUELA WOULD CEASE TO BE AN IMPORTANT PRODUCER OF IRON ORE FOR THE US OR WORLD MARKETS.

4. COHLMeyer AND RYAN RESUME THEIR TALKS WITH PEREZ GUERRERO AND GAMBOA THIS AFTERNOON.  
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